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SUBJECT: CENTRAL AUDITING AGENCY CRITICIZES GOE BUDGET MANAGEMENT

¶1. (U) Parliament witnessed heated debates on January 10 over the Central Auditing Agency's (CAA) report on the FY 2005-06 and 2006-07 budgets. Gawdat El Malt, head of the CAA, lauded the Nazif government's success in spurring economic growth and attracting investment, but noted the oft-repeated view that growth has not improved the lives of the poor. The report criticized the GOE's spending record, claiming that neither assistance funds nor the proceeds from privatization were effectively and transparently used on programs to benefit the whole country, such as education, transportation, sanitation and waste management and health care. In his appearance before parliament, El Malt placed much of the blame on Minister of Finance Yousef Boutros-Ghali (YBG), who he said had not succeeded in controlling the budget deficit.

¶2. (U) El Malt also expressed skepticism over the recent World Bank "Doing Business" report, which gave Egypt high marks for improving the investment climate. The CAA report claims that investors are still impeded by weak administrative systems, lack of transparency and poor coordination among GOE ministries. The report also notes that corruption is rampant in municipalities, particularly in the housing and construction sectors. All of these failings have created a crisis of confidence between the government and citizens, El Malt told members of parliament.

¶3. (U) Wafd party MP Mohamed Sherdy submitted a memo allegedly signed by 45 MPs to Mustafa Bakry, the speaker of the People's Assembly, asking to refer the CAA report to the Public Prosecutor for investigation of possible criminal negligence by GOE officials responsible for waste of public funds. In his own defense, YBG told parliament the CAA's report was "superficial," and most of its conclusions "hearsay." Oddly, during the debate he called El Malt a "World Bank agent." YBG pointed out that major expenditure on subsidies absorbed most budget resources, leaving little left for spending on education and health. The debate turned hostile at one point, with El Malt accusing YBG of slander and Bakry telling YBG to "speak politely."

¶4. (SBU) Amina Ghanem, an advisor at the Ministry of Finance (MOF), told us that much of the CAA's report was "unreasonable." She claimed the CAA did not consult with MOF before producing the report and said that El Malt has a "grudge" against YBG. Several months ago, YBG asked the Prime Minister to allow independent auditors to audit the Egyptian General Petroleum Company, citing the CAA's lack of objectivity when conducting audits of GOE entities. Ghanem believes El Malt's criticism of YBG was "revenge" for the latter casting aspersions on CAA's competence (Note: CAA is also responsible for the legally-required annual audit of the public banks).

¶5. (SBU) Reaction of other local analysts to news of the CAA report was mixed. Alia El Mahdi, Director of the Center for Economic and

Financial Research and Studies at Cairo University (and a ranking NDP member) was supportive of CAA's position. She told us that El Malt and YBG have a history of confrontation, but that YBG overreacted to the criticism and acted arrogantly, resorting to name calling, rather than an objective debate of facts. She called YBG's charge that the report was too generic unfounded, as she understood the report included hundreds of annexes with details of the specific allegations/criticism (Note: the report has not been made public). She also noted that El-Malt is a highly respected individual and has never before been attacked publicly. She noted that many MPs, regardless of party, rushed to his defense during the debate.

16. (SBU) World Bank (WB) Resident Representative Emanuel Mbi downplayed the exchange, saying he believes YBG was simply being sarcastic and in no way intended his calling El Malt a "World Bank agent" as an insult, but rather to note that the WB has raised similar concerns about public sector management and the business climate on many occasions. Mbi told us that the WB's Doing Business report has been prone to misrepresentation and misinterpretation, with the press often saying that Egypt is the best in the region, whereas Egypt still ranks behind many regional comparators. He also noted that the WB sometimes copies El Malt on memos pertaining to public sector management, so while he had not seen El Malt's report, he would not be surprised if it contained passages similar to WB language.

17. (SBU) Comment: Since taking over the CAA nine years ago, El Malt has repeatedly issued reports critical of the GOE's budget management. The barbs he traded with YBG in parliament are typical of the personal sniping endemic in Egyptian politics. YBG is frequently involved in personal squabbles, including with Minister of International Cooperation Fayza Abul Naga and Central Bank Governor Farouk El Okdah. For his part, El Malt is generally regarded as honest and competent, but his umbrage at the proposal to submit the budget of a government agency to an independent audit highlights the GOE's continued sensitivity to outside scrutiny. The debate has received much media attention, most of which calls for GOE officials to be held accountable for misuse of public funds. The fact that the issue is being openly debated is a positive, if modest, sign of movement toward greater transparency.
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